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SUBJECT: CYPRUS: U.S. FEDERAL RESERVE BOARD STAFFER NAMED NEW GOVERNOR OF CENTRAL BANK

(U) This cable is sensitive but unclassified. Please protect accordingly.

¶1. (SBU) Summary: President Papadopoulos has appointed Athanasios Orphanides, an MIT-educated, U.S. Federal Reserve Senior Adviser, to serve as the new Governor of the Central Bank of Cyprus. Orphanides will succeed aging incumbent Christodoulos Christodoulou, whose five-year term ends on May 3. Finance Minister Michalis Sarris, who himself spent 30 years in Washington D.C. with the World Bank, reportedly recommended Orphanides, whom he knows personally. Orphanides' appointment fits the Sarris mold. He is a technocrat with no known party affiliation, who has spent his entire professional career outside of Cyprus and mainly in the U.S. Orphanides will be expected to ensure a smooth transition to the Euro and to continue to modernize and professionalize the Cypriot banking system. End Summary.

¶2. (U) On April 13, President Papadopoulos named Athanasios Orphanides as the new Governor of the Central Bank of Cyprus, for a five-year term beginning on May 3. The incoming Governor, aged 45, has been working in the U.S. Federal Reserve System as research staff since 1990. Orphanides began his career at the Fed as an economist in the Division of Monetary Affairs, working on macroeconomic, finance, and monetary issues. In 2006, he was promoted to senior adviser in the same division, with an active role in formulating and implementing U.S. monetary policy as well as midterm strategy. While working for the Fed, Orphanides also lectured at the graduate and post-graduate levels at Georgetown and Johns Hopkins universities.

¶3. (U) Prior to his career at the Fed, Orphanides worked as a research associate with the Centre for Financial Studies in Frankfurt, London's Centre for Economic Policy and Research, and the Kiel Institute for World Economics in Germany. He earned his Ph.D. in Economics from the Massachusetts Institute of Technology (MIT) in 1990, after obtaining two under-graduate degrees from the same university in Economics and Mathematics in 1985. Orphanides has an extensive list of macroeconomic and monetary policy publications to his credit. He is married with two children.

¶4. (SBU) Orphanides will succeed aging incumbent Governor Christodoulos Christodoulou. Christodoulou, 68, was appointed at the helm of the Central Bank in May 2002, after a long and distinguished career in the civil service. Christodoulou twice served as Minister of Finance and as Permanent Secretary at two ministries -- Labor (1985) and Agriculture (1989). Christodoulou

has widely been criticized in the media recently over his daughters' involvement in a company responsible for preparing bank employees for mandatory state examinations.

¶15. (SBU) Orphanides will inherit a couple of main priorities. First and foremost will be to ensure the smooth transition to the Euro on January 1, 2008. Barring any major external shocks, the EU is widely expected this summer to approve Cyprus's application to join the Eurozone effective January 1. Nevertheless, polls continue to show as many as 50 percent of Cypriots continue to have serious concerns about giving up the Cypriot pound, mainly due to Greece's perceived negative experience with the transition to the Euro and inflationary fears. The new Governor will also be expected to continue his predecessor's campaign to modernize and professionalize the Cypriot banking system. As most Cypriots are linked to one of the three Cypriot banks, and many key Cypriot families have often used the banks as their personal fiefdoms, being an outsider may be a significant advantage.

¶16. (SBU) Orphanides' appointment put an end to a long litany of names being floated around unofficially as likely suitors for this much-coveted and influential post. Among those names were Finance Minister Sarris, former Finance Minister and currently Hellenic Bank CEO Keravnos, and Cyprus Development Bank General Manager Taoushianis. Orphanides is said to have the endorsement of both (communist) AKEL party (the largest party in the current administration's ruling coalition) and Finance Minister Sarris (himself a technocrat with international credentials and a long career at the World Bank behind him from 1975 to 2004) before earning the President's final endorsement.

¶17. (SBU) Although Orphanides is not known to have any political affiliation, his family has reportedly been traditional supporters of AKEL. Furthermore, his father, and two siblings all studied in the former (communist) Czechoslovakia.

¶18. (U) Initial press reaction towards Orphanides' selection has been positive. One editorial entitled "Orphanides Appointment Shows the Way" read: "(Orphanides) is a young person, a technocrat with knowledge and experience outside of Cyprus. Generally, he has what it takes to make him a good choice by President Papadopoulos. His appointment also shows that there are younger Cypriots, with all the necessary knowledge and credentials to succeed the 40's (and older) generation, which continues to occupy most key posts in Cyprus. It also shows that candidates should not be limited by internal or party-line boundaries. Solutions from the past cannot make the future."

SCHLICHER